



California Public Employees' Retirement System  
Investment Office

## Attachment 3

# Memorandum

June 13, 2011

To: INVESTMENT COMMITTEE

From: CURTIS D. ISHII, Senior Investment Officer, Global Fixed Income  
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Subject: FIXED INCOME AND GLOBAL EQUITY RESPONSE TO WILSHIRE  
ANNUAL REVIEW – INTERNAL CURRENCY MANAGEMENT

Wilshire's annual review of Internal Currency management has identified some items related to team location, staffing and communication. While Wilshire's observations are valid, they must be contemplated within the context of several other considerations:

- Currency has historically been located within the Fixed income team due to the very significant linkage between currency movements and international sovereign debt markets.
- The resource constraints impacting the entire Investment Office have required changes to, and expansion of, the activities of many staff members. Specific items affecting the Currency team are:
  - Reassignment of one currency staff person to research.
  - Expansion of activity and addition of a staff person for Treasury trading.
  - Transfer of responsibility for external international fixed income managers to the Sovereign Portfolio Manager.
  - Ongoing search for a Commodity Portfolio Manager.

Another issue noted in the Wilshire review is related to the interaction between the Currency and Internal Equity teams. A core function of the Currency team is the execution of foreign exchange transactions stemming from the purchase and sale activity of international equity securities. The Internal Equity team communicates the needed foreign exchange activity through the Charles River order management system. Wilshire noted that activity flowing from the

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Internal Equity team happens at various time points and presents an opportunity to “net” the activity to minimize market trading. While such “netting” activity is undeniably beneficial, several considerations impact the situation:

- The rebalance and trading activity of the Internal Equity team is not perfectly coordinated among team members to insure simultaneous arrival of the information. Such coordination is not currently possible given the state of technology development and the staffing levels.
- The opportunity costs attached to the great majority of currency activity is very small. For example, the trading spread in Euro is approximately  $1/100^{\text{th}}$  of a cent (1 basis point). This level of spread implies a cost of \$100 on €1 million of currency.